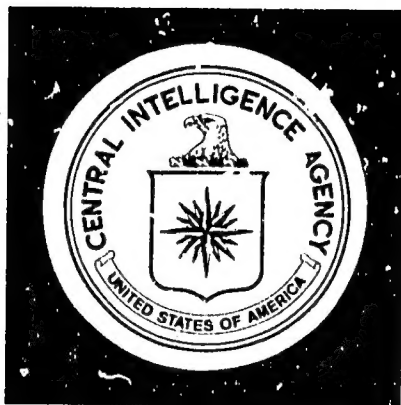


25X1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

Confidential



Intelligence Report

Poland: The Economy Under Gierek

Confidential

ER IR 75-19
October 1975

25X1

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

Confidential



Poland: The Economy Under Gierek

Gierek's economic policies have been aimed at modernization of the economy and increasing economic growth. At the same time, more resources have been devoted to improving consumer welfare than under Gomulka.

- Industrial policies have been geared toward modernizing Polish industry, developing raw materials, and increasing consumer goods production.
- Agricultural policies have been centered on increasing food production and improving agricultural efficiency.
- Consumer policies have been focused on increasing real incomes and supplies of consumer goods and services.
- Gierek has borrowed heavily in the West to finance purchases of Western machinery and agricultural products, but he continues to rely on the USSR for raw materials and export markets.

Gierek's policies, together with favorable economic trends – particularly in agriculture and Western credit availability – have led to a surge in economic growth. Since Gierek assumed power in 1970

- growth in GNP has averaged 7% annually;
- industrial production has soared – averaging 10.5% a year – with the growth in consumer goods output exceeding the growth in producer goods;
- livestock inventories and crop production have registered strong gains, enabling the regime to boost domestic supplies of foodstuffs – especially a 6.4% average annual increase in meat supplies; and
- personal consumption growth has doubled, averaging 10.7% annually.

25X1

25X1

25X1

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] the Office of Economic Research, [redacted]

Confidential

October 1973

Confidential

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

Although Gierek has achieved notable success with his policies, problems have developed that may dampen future growth and lead to consumer dissatisfaction.

- Rapid increases in purchasing power and investment growth, coupled with rising import prices, have increased inflationary pressures.
- Rising consumer expectations have resulted in considerable excess demand for high-quality consumer goods, including foodstuffs, automobiles, and housing.
- Soaring imports of Western goods have boosted Poland's indebtedness by \$4 billion; high debt-service payments may limit import capacity.

Confidential

Approved For Release 2005/01/10 : CIA-RDP86T00608R000500200020-4

DISCUSSION

Gomulka Gives Way to Gierek

1. Gomulka's failures to anticipate the intensity of adverse popular reaction to austerity measures – necessitated primarily by policy blunders – led, in part, to his demise as First Secretary of Poland's Communist Party in December 1970. His policy initiatives seemed reasonable enough at their inception – (a) an industrial reform that tied wages more closely to productivity and (b) increased procurement prices to promote self-sufficiency in grain production. Ultimately, however, these policies resulted in a slowdown in wage and employment growth and higher prices for food, a combination that sparked widespread riots.

2. In the winter of 1969-70 Gomulka announced a reform aimed at improving industrial efficiency by tightening controls over employment and establishing more incentive-based wages and bonuses. The reform was designed to reduce overemployment in factories while tying basic wages and bonuses more closely to production. These changes were long overdue, because productivity in Poland had declined to the lowest level in Eastern Europe in the 1960s as the result of "extensive" growth policies made possible by a large labor supply. Some of the immediate consequences, however, were a reduction in overtime work and a slowdown in the growth of factory wages from 4.3% in 1969 to 2.8% in 1970.

3. Gomulka's problems with farm policy began in the mid-1960s, when he reduced grain imports and called for self-sufficiency in grain production in response to a cutoff in US PL 480 credits. Grain procurement prices were then raised to stimulate domestic production. To offset the cost of higher procurement prices, the government boosted feedgrain prices, but livestock procurement prices were not raised as much. The consequent squeeze on the livestock sector had its inevitable effect: growth slowed sharply and hog numbers actually declined between 1966 and 1970. The decline in meat supplies that followed coincided with increasing demand – owing to rising incomes and a lack of sufficient alternative consumer goods – and created severe shortages of meat and dairy products.

4. Gomulka's response to these shortages – his last major policy decision, in December 1970 – was to boost prices of food and other consumer items, representing about one-third of all retail sales. Prices of meat and meat products in particular were increased by 18%. These actions provided sufficient provocation to spark riots among shipyard workers in Gdansk, who were already upset with

Confidential

the proposed incentive plan, and among housewives, who were trying to lay in extra food for the Christmas season.

5. On 20 December, Gomulka was replaced by Edward Gierek, a tough, efficient Party boss of heavily industrialized Katowice Province. Gierek acted quickly to calm consumer and worker complaints by freezing food prices, arranging for meat imports to alleviate shortages, and raising minimum wages, family allowances, and pensions. Then, in March 1971, amid continuing strikes by Lodz textile workers, he rescinded the December 1970 food price hikes and froze them for two years. By midyear, Gierek's planners had redrafted Gomulka's 1971-75 plan into a more consumer-oriented document.

Gierek's Economic Policies

6. Gierek has continued Gomulka's policies of rapid industrial growth. He has been more cautious than Gomulka in insatuting economic reforms but bolder in promoting economic modernization through an expansion of imports on credit from the West. Perhaps most important, Gierek has been more attentive to consumer needs -- and complaints.

Industry: Priority Shifts and Western Technology

7. In a departure from Gomulka's industrial policies, Gierek imported large amounts of Western machinery and equipment to modernize industry and improve efficiency, and he accelerated the growth of consumer goods production. Gierek has pumped more investment into the food, light, and heavy machinery industries -- more recently mining and energy. He also made adjustments in the industrial management system, but slowly and cautiously because the memory of Gomulka's abortive measures was still fresh.

8. In 1972, in an effort to improve industrial efficiency, Gierek endorsed limited experiments to give greater responsibility to the enterprise. Enterprises would be permitted to undertake certain investments independently, using bank credits and their own profits, and would be given more flexibility in the use of the wage fund. Eventually the size of the fund would depend on enterprise profitability.

9. Following the first experiments at the beginning of 1973, the system spread to enterprises accounting for almost one-half of industrial production, and

Confidential

by the end of 1975 it was to cover enterprises accounting for about three-fourths of production. The leadership has also tried to move younger and better qualified people into positions of responsibility at the economic ministry and enterprise levels. For example, in late 1974 Gierek replaced the heads of the Ministries of Foreign Trade, Finance, and the Chemical Industry with younger, pragmatic technocrats of proved administrative and managerial abilities.

10. A more recent policy initiative has involved the energy sector. Poland emerged from the world energy crunch in a much stronger position than most East European countries because of its heavy dependence on domestic coal supplies. Nevertheless, at the beginning of 1974, Gierek introduced energy conservation measures as strict as any within Eastern Europe, including price increases for oil products and cutbacks in heating fuels. Gierek also initiated plans to develop the Lublin hard coal basin in southeastern Poland. An ambitious program also has been undertaken to exploit brown coal deposits in the Belchatow region, which will enable Poland to boost electric power production for domestic use and for export.

Agriculture: More Material Incentives

11. To boost crop production, Gierek raised procurement prices for grain, abolished compulsory deliveries to the state, lowered the prices of fertilizer and some agricultural services, and sold state land to the largest and most productive private farmers. Private farmers -- who account for about four-fifths of agricultural production -- were also given legal title to their land and were brought under the national health service.

12. At the same time, to raise livestock production, Gierek reversed Gomulka's policy of curtailing grain imports. By 1974, grain imports had risen to about 4 million tons, nearly double the level in 1970. As in the case of grain, livestock procurement prices were raised and compulsory deliveries abolished.

The Consumers: More Goods, Higher Incomes

13. In addition to shifting priorities toward consumer goods production, Gierek increased imports of consumer manufactures and selectively reduced prices of some consumer durables. The latter was necessary to reduce stocks that had accumulated rapidly under Gomulka. The price freeze on basic foodstuffs was extended in 1973 for two more years. In redrafting Gomulka's 1971-75 plan, Gierek accelerated growth of money incomes for both rural and urban workers.

Foreign Trade: Greater Reliance on the West

14. Gierek reversed Gomulka's policy of restraint in trade with the West to facilitate achievements of his domestic economic goals. Imports of Western machinery and equipment would provide the technology needed to modernize Polish industry and eventually to increase exports to hard currency areas. Imports of attractive Western consumer goods would help stave off the workers' discontent and absorb excess purchasing power generated by his wage policies. Gierek also has expanded trade with the USSR to assure supplies of critical raw materials and markets for Poland's low-quality machinery exports.

15. To promote exports, Gierek especially sought imports of machinery and complete industrial plants from the West for the chemical, transportation, food processing, telecommunications, and light industries. He also looked to the West for assistance in developing Poland's raw material strengths -- particularly the Lublin coal deposits and the Lubin-Glogow copper deposits. Cooperative ventures with Western firms have also been encouraged to secure Western technology and to promote hard currency exports.

16. To finance Polish imports from the West, Gierek was willing to draw heavily on Western credits, and recently has used coal as a bargaining lever in negotiations with Western countries to secure additional credits. For example, Poland received a \$150 million Belgian credit in 1975 and has demanded a \$300 million credit from Finland -- both in exchange for guaranteed coal deliveries. To help finance the development of the Lublin coal fields, West Germany was asked for \$100 in credits for each ton of coal delivered, in addition to the purchase price.

17. Gierek has, out of necessity, continued to rely on trade with countries of the Council for Mutual Economic Assistance (CEMA) for supplies of vital raw materials and a market for machinery. CEMA partners still provide more than half of Poland's imports of crude iron ore, petroleum products, and rolled metals. In 1973 the USSR supplied large shares of Poland's imports of key materials -- natural gas (100%), pig iron (98%), crude oil (95%), and cotton (64%). In 1973 the Soviet market alone absorbed more than two-fifths of Polish exports of machinery, while the other CEMA countries absorbed another two-fifths.

18. Expansion of trade with the USSR also has involved cooperative ventures within the CEMA framework. These projects, nearly all in the Soviet Union, include

a cellulose plant at Ust-Ilimsk, a metallurgical combine at Kursk, and the Orenburg natural gas pipeline. For the Kursk project, Poland will deliver railroad cars, cranes, and other equipment to the Soviet Union in return for deliveries of enriched iron ores and ferroalloys. Poland also agreed in 1975 to help build an oil pipeline linking the Polotsk refinery in Belorussia with the Mazeikiai refinery in Lithuania in exchange for additional supplies of Soviet crude oil.

Outcome of Gierek's Policies

19. The acceleration of Poland's economic growth since 1970 can be attributed largely to Gierek's policies. Growth was spurred by the rapid pace of industrial investment, which in part was made possible by a rapid growth in imports from the West of machinery and technology. In some respects Gierek was lucky: four straight years of favorable crop weather yielded a succession of record grain harvests.

Industrial Growth, Investment, and Wages

20. Industrial investment more than doubled between 1970 and 1974, with growth averaging 23% annually – the highest rate in Eastern Europe. Investment growth has been higher under Gierek than in Gomulka's last five years in every industry except nonferrous metals. Reflecting Gierek's shift in priorities, the share of total investment earmarked for food and light industries increased from an annual average of 14% in 1966-70 (see Table 1) to 19% in 1971-74. The 35% investment growth rate for the food industry was the highest of all (see Table 2).

21. Although many large investments made under the 1971-75 plan will not result in production until 1976-80, Gierek's investment program apparently is beginning to pay off. More than 100 priority investments will be completed in 1975 or early 1976. Projects scheduled for completion include two powerplants, copper mines, lead-zinc mines, seven large cement plants, a refinery at Gdansk, and new harbor and dock facilities at Gdansk and Gdynia. Many of these investments actually will be completed ahead of schedule.

22. Industrial output grew at an annual rate of 10.5% annually in 1971-74, compared with 8.4% in 1966-70 (see Table 3). During this period – for the first time since 1958 – the growth of consumer goods output exceeded the growth of producers' goods. Major factors contributing to faster industrial growth since 1970 included massive increases in investment, sufficient supplies of raw materials

Table 1

Poland: Distribution of Industrial Investment

	Percent				
	Annual Average 1966-70	1971	1972	1973	1974
Total	100.0	100.0	100.0	100.0	100.0
Fuels and power	26.1	27.5	24.1	22.7	20.9
Coal	9.5	9.8	8.9	7.8	6.6
Other fuels	6.5	6.2	5.3	5.6	6.1
Electric power	10.1	11.5	9.9	9.3	8.2
Ferrous metals	6.7	7.9	7.4	6.3	8.2
Nonferrous metals	5.0	6.0	4.4	3.6	4.4
Machinery	19.5	20.6	21.6	22.9	24.7
Chemicals	15.6	11.4	11.3	11.0	10.2
Construction materials	7.3	7.2	7.4	7.5	7.0
Wood and paper	3.8	3.5	3.6	3.6	4.1
Light industry	6.0	7.0	8.4	9.0	7.6
Food	8.4	7.8	10.6	12.0	11.4
Other	1.6	1.1	1.2	1.4	1.5

and energy, and sharp gains in labor productivity. The industrial branches contributing most to the good performance were

- machinery, especially motor vehicles, shipbuilding, and electronic, electric, and agricultural equipment;
- metals, with refined copper output doubling and steel products up 30%;
- food processing, led by a doubling in pork and canned pork products; and
- light industry, paced by sharp increases in knit goods.

Table 2

Poland: Industrial Investment

	Average Annual Growth Rate (Percent)	
	1966-70	1971-74
Total	7.6	23.2
Fuels and power	3.3	15.9
Coal	-0.5	12.5
Other fuels	3.7	21.1
Electric power	7.3	15.4
Ferrous metals	7.5	30.5
Nonferrous metals	15.3	12.1
Machinery	11.5	28.9
Chemicals	6.5	16.2
Construction materials	11.9	19.4
Wood and paper	5.3	27.1
Light industry	15.6	28.8
Food	5.9	35.1

Table 3

Poland: Industrial Production¹

	Average Annual Growth Rate (Percent)					
	1966-70	1971	1972	1973	1974	1971-74
Total	8.4	8.2	10.7	11.3	11.6	10.5
Fuels and power	7.0	6.1	7.6	6.4	5.3	6.5
Coal	4.3	4.4	4.4	4.2	3.5	4.1
Other fuels	10.6	6.7	10.2	5.7	7.7	8.1
Electric power	8.6	8.9	11.2	11.0	6.0	9.3
Ferrous metals	5.4	6.5	6.1	8.9	7.3	6.9
Nonferrous metals	9.8	15.8	13.4	16.7	19.3	16.3
Machinery	12.3	12.4	13.1	14.9	16.0	14.2
Chemicals	13.1	9.0	12.2	13.0	13.9	11.9
Construction materials	7.1	7.3	9.1	6.8	9.1	8.4
Wood and paper	5.5	5.5	7.3	11.0	11.2	8.6
Light industry	7.3	6.1	9.3	9.5	10.8	8.8
Food	3.0	7.3	11.0	9.9	8.6	8.9

1. Official Polish Yearbook statistics.

23. Earnings of workers increased by an average of 6.8% during 1971-74, compared with 3.5% in 1966-70. Earnings differentials among branches of industry were maintained practically intact except for the coal and metals industries (see Table 4). Even though Gierk shifted investment priorities to consumer and machinery industries, he felt that there was little need to disturb relative wage incentives.

Agricultural Success

24. The expansion of farm output included steady growth in both meat and grain production (see Tables 5 and 6). Freed from onerous compulsory deliveries and favored by higher procurement prices, Polish farmers reacted quickly. Thanks to the relatively short hog breeding cycle, pork supplies were the first to show improvement. By the end of 1972, hog production was up 29% over 1970 and pork procurement 46%. Between 1971 and 1974, livestock production increased by 27% compared with a growth of less than 1% in 1966-70. Meat production increased at a 9% average annual rate during 1971-74, and hard currency earnings from meat exports more than tripled.

Confidential

Table 4

Poland: Industrial Workers' Earnings Compared to the Average
For Total Industry

	Total Industry = 100			
	1960	1970	1973	1974
Total Industry	100	100	100	100
Fuels and power	143	152	149	157
Coal	148	164	160	172
Other fuels	105	103	104	105
Electric power	114	113	117	111
Ferrous metals	123	125	124	129
Nonferrous metals	123	125	125	132
Machinery	103	98	100	98
Chemicals	94	93	93	94
Construction materials	91	92	94	96
Wood and paper	85	84	84	83
Light industry	80	82	82	79
Food	85	86	89	88
Other	92	88	87	86

Table 5

Poland: Inventory of Livestock Herds and Production of Selected
Livestock Products

	Annual Average 1966-70	1971	1972	1973	1974
	Million Head				
Livestock					
Hogs ¹	14.0	15.2	17.3	19.8	21.5
Cattle ¹	10.4	11.1	11.5	12.2	13.0
Poultry ²	83.7	88.9	92.9	94.2	96.6
	Thousand Metric Tons				
Livestock products					
Meat ³ (carcass weight)	2,101	2,215	2,485	2,735	3,072
Of which:					
Beef	433	456	439	478	636
Pork	1,306	1,313	1,590	1,771	1,888
Milk	14,615	15,147	15,765	16,187	17,352

1. As of 30 June.

2. As of 31 December.

3. Official Polish Yearbook statistics.

Table 6

Poland: Production of Selected Crops

	Million Metric Tons				
	Annual Average 1966-70	1971	1972	1973	1974
Grain	17.0	19.9	20.4	21.8	22.8
Wheat	4.3	5.5	5.1	5.8	6.4
Rye	7.5	7.8	8.1	8.3	7.9
Barley	1.7	2.5	2.8	3.2	3.9
Other	3.5	4.1	4.4	4.6	4.8
Potatoes	47.9	39.8	48.7	51.9	48.6
Sugar beets	13.6	12.6	14.3	13.7	13.0
Fodder (root)crops	7.8	6.8	8.0	8.5	8.0
Vegetables	3.8	3.5	3.6	4.0	3.5

25. As a result of the higher procurement prices, money incomes of private farmers increased between 1970 and 1973 by more than 50% and probably rose further in 1974. The jump in rural purchasing power was absorbed to some extent by higher prices for building materials, fodder, and seeds, but incomes were sufficiently high to allow private farmers to increase their land holdings and to buy more agricultural machinery. In 1971, stocks of unsold farm machinery had equaled the value of yearly sales; by 1974 demand for tractors and other agricultural equipment exceeded supplies.

26. Despite these successes, the fragility of Poland's livestock base was demonstrated again by meat shortages this year. Excessive rains during the harvest in 1974 had led to poor fodder crops, which, in turn, forced large-scale slaughtering of hogs by farmers. Domestic storage and processing facilities were inadequate, so Warsaw stepped up exports of pork. In February 1975, when shortages of pork and dairy products led to disturbances in Poland's major industrial cities, Gierek acted quickly to increase supplies of pork through imports - reportedly from the Soviet Union and East Germany - and by drawing down stocks slated for export to the West. Meat shortages were reported again in June and were eased by a further drawdown of stocks.

Consumer Gains

27. Consumer gains have been most noticeable in the consumption of meat, alcoholic beverages (see Table 7), and consumer durables. Total consumption has

Table 7

Poland: Per Capita Consumption

	Average Annual Growth Rate (Percent)				
	1966-70	1971	1972	1973	1974
	Based on Current Zlotys				
Total	5.6	7.5	8.8	10.9	11.9
Foodstuffs	3.9	7.8	4.4	6.9	7.6
Alcoholic beverages	8.7	7.1	9.4	16.0	27.4
Nonfoodstuffs and services	6.5	7.4	11.9	12.8	12.2
	Based on Kilograms				
Meat ¹	1.8	4.4	5.2	4.9	4.7
Of which:					
Pork	0.4	8.7	12.0	4.5	0.9
Beef	5.5	-1.0	-14.0	6.3	13.4

1. Including animal edible fats.

increased rapidly – averaging 10.7% a year since 1970 – as a result of a 12% average annual growth in real incomes and sharp increases in supplies of consumer goods. The rapid growth in real incomes reflects above-plan wage increases, a 50% boost in the minimum wage, and increases in pensions and family allowances.

28. Increased meat supplies resulted in increased per capita meat consumption from 117 pounds in 1970, to 145 pounds in 1974. Consumption of pork – the meat most preferred by Polish consumers – was up more than 28% during 1971-74. The quality of the Polish diet also improved with a decline in the consumption of cereals and potatoes in favor of eggs and fish. Larger supplies of nonfood items stimulated retail sales, which grew at an average of 8.4% annually in 1971-73. The leading items sold were furniture, up by 15%, electrical appliances, by 16%, and passenger cars, by 21%.

29. Housing has been the major exception to the general advance in consumption, as Gierek is apparently reconciled to the constraints imposed by an outmoded construction industry. During 1971-74 the average number of families per 100 dwellings fell only from 113 to 112. Even after the 1971-75 plan was revised, Polish economists estimated that the 1.1 million dwellings to be built were still 600,000 below requirements for the expected increase in population.

30. A more rapid increase in incomes than in supplies of consumer goods has exacerbated inflationary pressure, particularly for basic foodstuffs, for which prices have been frozen since 1971. Prices for goods and services remained relatively stable during 1971-73 except in private food markets (see Table 8). In early 1974,

Table 8

Poland: Index of Retail Prices of Goods and Services

	1970=100				
	1965	1971	1972	1973	1974
Total	93.4	99.9	99.8	100.3	106.5
Goods	94.6	99.8	99.7	99.9	106.2
Foodstuffs	92.5	102.5	102.4	102.7	109.1
Socialized trade	93.0	101.5	100.7	100.6	102.2
Catering establishments	88.4	101.6	99.6	99.8	117.2
Private markets	92.5	197.6	111.9	114.3	135.1
Alcoholic beverages	97.5	100.0	100.0	100.0	124.6
Nonfoodstuffs	97.4	97.2	96.9	97.1	98.4
Services	84.5	100.3	100.9	102.8	108.2

prices were raised on restaurant meals (22%), internal air fares (75%), vodka (40%), and gasoline (80%) and caused a 6.2% jump in the retail price index. Continued excess demand for consumer goods was underlined by the high savings rate during 1971-1974 - 28% of personal income in 1974, compared with 21% in 1970 (see Table 9).

Table 9

Poland: Disposition of Net Personal Incomes

	Billion Current Zlotys				
	1970	1971	1972	1973	1974
Total	473.4	522.5	593.3	677.3	777.8
Consumption of material goods	409.8	442.2	485.3	546.6	626.8
Consumption of services	26.2	27.7	28.9	32.1	35.8
Outlays for housing construction	8.1	8.4	8.8	10.0	10.8
Other expenditures	17.3	17.3	28.6	29.6	34.7
Increase in money balance	12.0	26.9	41.7	59.0	69.7
Total savings ¹	97.2	112.5	139.6	174.4	216.2

1. Including prepayments for Polish Fiat 126s and downpayments on cooperative apartments.

31. To dampen inflationary pressures, the government has tried to soak up some of the excess purchasing power by

- encouraging savings for downpayments on cooperative apartments,

Confidential

- requiring advance payment in full for the new Fiat 126 for delivery in 1976-78,
- assessing a one-time tax in 1975 on personal wealth and businesses outside the socialized sector, and
- increasing turnover taxes for enterprises with windfall profits earned from higher export prices.

Foreign Trade

32. Imports from the developed West are a key element in Gierek's policies, providing machinery and technology for modernization and supplementing consumer goods supplies. Huge trade deficits and soaring hard currency debt have resulted. Imports from the developed West increased from a share of about 25% of the total in 1970 to about 50% in 1974 (see the chart).

33. Small trade surpluses with the West during 1970-71 were followed by large deficits as purchases of machinery and equipment - totaling more than \$4 billion during 1971-74 - led the import binge (see Table 10). By 1974 machinery and equipment accounted for almost 40% of total imports from the developed West, compared with 25% in 1970. Among important purchases were meat processing plants, a 300,000 ton per year ethylene plant, a bearings manufacturing plant, a rolling mill, and a sodium carbonate plant.

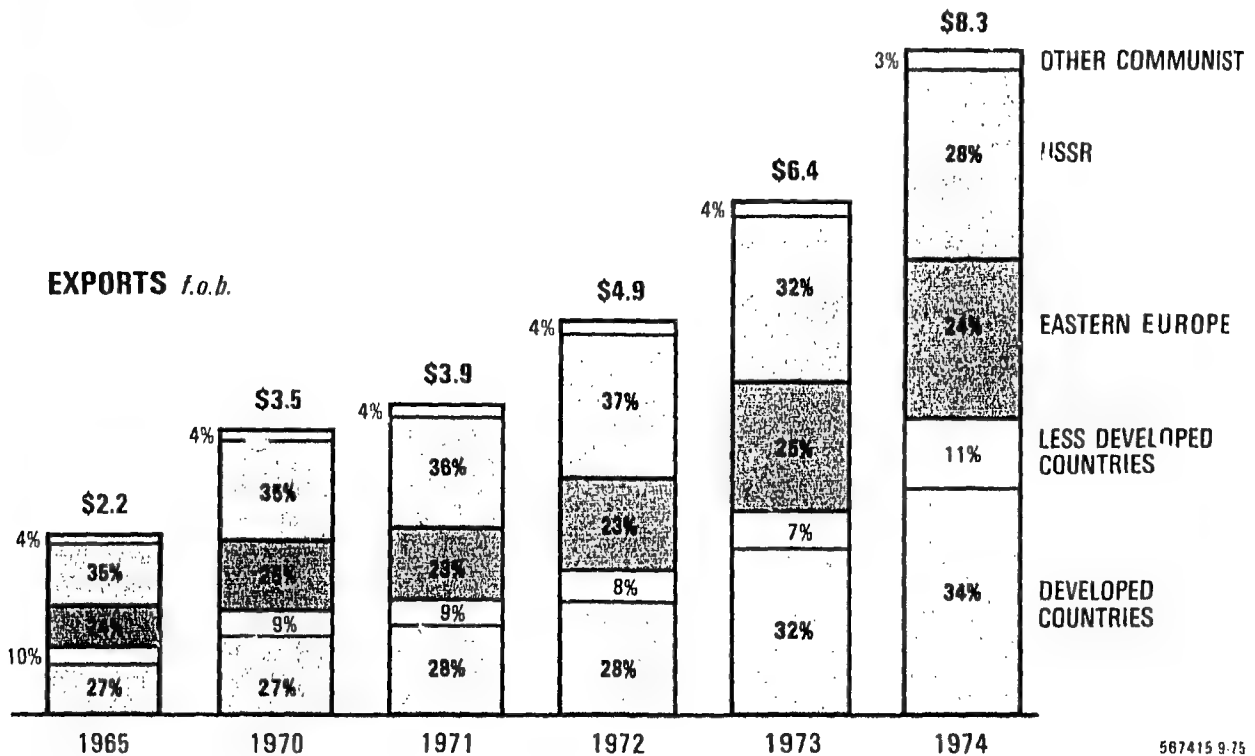
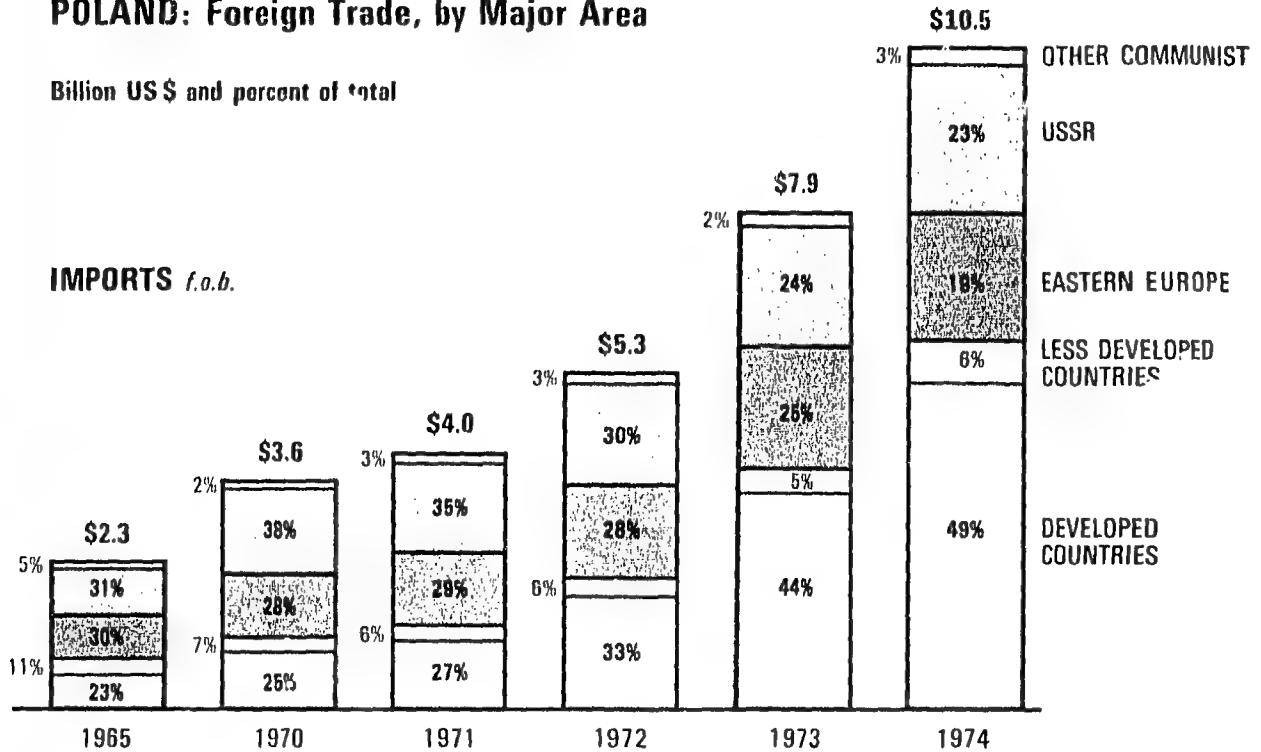
34. Under Gierek, Poland has incurred the largest hard currency indebtedness in Eastern Europe. Outstanding indebtedness ballooned from \$0.9 billion in 1970 to an estimated \$4.9 billion at the end of 1974, as the result of mounting current account deficits (see Table 11). Aside from the increased import volume, the growth of Poland's indebtedness also reflects Western inflation and currency exchange rate changes.

35. Almost half of Poland's hard currency trade has been financed by private, nongovernment-guaranteed credits. Many of these credits have been short term (one year or less), accounting for an estimated 15% of total hard currency indebtedness in 1973 and probably a much larger share in 1974. Short-term credits generally cover purchases of raw materials and small machinery and equipment; in some cases they are used to refinance debts.

Confidential

POLAND: Foreign Trade, by Major Area

Billion US \$ and percent of total



567415 9-75

Confidential

Table 10

Poland: Trade with the Developed West¹

	Million US \$		
	Imports	Exports	Balance
1965	548	607	59
1970	901	962	61
1971	1,075	1,099	24
1972	1,772	1,397	-375
1973	3,431	2,063	-1,368
1974	5,158	2,816	-2,342

1. Including Australia, Austria, Belgium-Luxembourg, Canada, Denmark, Finland, France, Iceland, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States, and West Germany.

Table 11

Poland: Hard Currency Balance of Payments

	Million US \$				
	1970	1971	1972	1973	1974 ¹
Exports, f.o.b. ²	986	1,122	1,434	2,104	2,828
Imports, f.o.b. ²	-1,009	-1,182	-1,938	-3,693	-5,543
Services, net	3	4	4	-9	37
Interest income, net	-43	-40	-45	-83	-240
Transfer payments, net ³	110	141	221	295	450
Current account balance	47	45	-324	-1,386	-2,468
Medium- and long-term capital, net	-5	24	137	545	771
Basic balance	42	69	-187	-841	-1,697
Short-term capital, net ⁴	-17	-7	149	897	1,393
Errors and omissions	-25	-62	38	-56	304

1. Preliminary.

2. Polish official trade statistics have been adjusted for understatement of imports and a slight overstatement of exports.

3. Including net transfer payments, both private and government, and other government transactions.

4. Including "untied" bank loans of one to four years.

36. The primary source of private, nongovernment-guaranteed credits has been Eurocurrency borrowings, which have grown markedly since 1973. Poland's net liabilities on the London Eurocurrency market alone more than doubled

Confidential

between the end of 1973 and the end of 1974 to \$900 million. In addition to short-term Eurocurrency borrowings, Poland has obtained syndicated Eurocurrency bank loans with repayment periods up to 12 years and interest at 0.5-1.5 points above the six-month Eurodollar interbank rate. Recent syndications include a \$100 million loan in October 1974 for development of the Lubin-Glogow copper deposits from a consortium of US and Canadian banks and a \$240 million loan in May 1975 for copper resource development.

37. Private, government-guaranteed credits from NATO countries have also been an important source of hard currency financing. By the end of 1973 the amount outstanding on such credit extensions was about \$1.4 billion. Recent extensions include a \$185 million Belgian credit for a variety of items and a \$1.7 billion French line of credit to cover purchases of French capital equipment. West Germany also signed a preliminary agreement in August 1975 to provide Poland with a 25-year \$400 million credit at an interest rate of 2.5% a year. Non-NATO Western countries - Austria, Japan, Sweden, and Finland in particular - have also extended credits. In October 1974, Austria extended \$175 million in credits to buy Austrian machinery. Poland also obtained a \$300 million credit from Finland to cover deliveries of machinery and equipment for the Kwidzyn pulp and paper complex.

38. Poland has also turned to the CEMA International Investment Bank (IIB) and Soviet-owned banks in the West to pay for hard currency imports. The IIB extended credits to Poland of about \$90 million between 1971 and 1974 - including at least \$46 million for hard currency purchases to build and modernize industrial plants, mostly in the machine building industry. Recent extensions include a hard currency loan of at least \$30 million to finance purchases of Western equipment for the Orenburg gas pipeline.

39. Trade with the United States increased almost fourfold to \$730 million between 1970 and 1974 (see Table 12). Polish imports from the United States surged from \$58 million in 1970 to \$469 million in 1974. Most of the increase stemmed from Polish purchases of US agricultural products - mainly feedgrains and meals. In addition, extension of Eximbank credits in 1972 enabled Poland to increase its imports of US machinery and equipment. Polish exports to the United States - primarily processed foods such as hams and miscellaneous manufactures - increased more slowly, from \$93 million to \$261 million. Consequently, Poland recorded trade deficits with the United States in 1973 and 1974 after registering surpluses each year between 1964 and 1972. Poland is

Table 12

Poland: Trade with the United States

	Million US \$		
	Imports	Exports	Balance
1960	84.1	31.5	-52.6
1965	30.4	68.9	38.5
1970	58.3	92.8	34.5
1971	80.9	106.3	25.4
1972	109.9	128.0	18.1
1973	314.7	190.2	-124.5
1974	468.6	260.9	-207.7

expected to purchase large quantities of US feedgrains again in 1975 to support its planned expansion of livestock production, to compensate for shortfalls in grain and fodder crops, and to offset cutbacks in grain deliveries from the USSR.

40. Imports from the United States have been supported in part by Eximbank and Commodity Credit Corporation (CCC) credits. Extensions in 1975 include a \$15 million CCC credit to cover Polish imports of wheat. Poland has received authorization for \$125 million in Eximbank credits since 1972, including a \$22 million credit for the purchase of two meat processing plants, a \$20 million credit for the purchase of copper processing facilities, and a \$14 million credit toward the purchase of a foundry for the machine tool industry.

Outlook

Economic Growth

41. Gierek's policies have been relatively successful in raising living standards and modernizing industry and will likely continue in the future. Some reevaluation of long-range economic goals has been necessary in light of price increases for Soviet raw materials and the need to import a growing share of raw materials from high-priced Western sources. Unlike other East European regimes, however, Poland has not announced any major cutback in growth plans. In fact, fragmentary information about the 1976-80 plan indicates a continuing drive for rapid economic growth by Gierek.

Confidential

42. To continue rapid growth, Gierek will need good years in agriculture. So far this year the outlook is inauspicious - drought threatens to reduce the fodder crop. If fodder crops decline - as they did last year - increased feedgrain imports will be necessary to maintain livestock production.

43. Anticipating the financial burden of growing imports to support his agricultural program, Gierek in 1974 announced a program to achieve agricultural self-sufficiency. Unlike Gomulka's plan for self-sufficiency, Gierek's program is long range and concentrates on improving efficiency. The goal is to double agricultural production by 1990 through more efficient land use, expanded supplies of agricultural machinery and fertilizers, improved transportation and storage facilities, and greater research on protein and high-yielding grain varieties. Although Gierek emphasized that his plans would not necessarily involve accelerated collectivization of farms, the socialization of agriculture remains official policy.

44. Industrial growth will continue to be paced by output in the machinery and consumer goods sectors, with mining and petrochemicals also developing rapidly. Production of hard coal is scheduled to increase to 200 million tons by 1980, from 162 million tons in 1974. Gierek apparently hopes to draw heavily on Eurocurrency financing and government-guaranteed credits from the West to develop the Lublin coal fields.

45. Despite the surge in world and Soviet oil prices, Gierek is still committed to an expansion of oil refineries and petrochemical plants in 1976-80. Poland imported 215,000 barrels of crude petroleum per day in 1974 and is expected to double its imports by 1980. These purchases will increase the oil import bill from \$230 million in 1974 to an estimated \$1.9 billion in 1980. As a result of Soviet supply constraints, Poland will have to turn more to non-Soviet sources for its oil. It already has concluded deals with Algeria, Iran, Libya, and Iraq and is searching for additional supplies.

Trade with the West

46. While the economy under Gierek depends increasingly on imports from the West, prospects for exports to the West are dim. Except in shipbuilding, Poland does not produce much high-quality machinery and manufactures that can be marketed in the West. Improvements in machinery based on imports of Western technology will not be realized for some years, so sales for some time will be limited mainly to raw materials, light manufactures, and foodstuffs. The Western

Confidential

Confidential

recession and the EC ban on meat imports already have cut into Poland's hard currency earnings and caused problems in formulating the 1976-80 plan. Even when economic recovery takes place in the West, hard currency earnings may be held down by the need to use more Polish raw materials to pay for Soviet raw materials at the higher prices introduced this year.

47. Poland's demand for Western machinery and high prices for imported raw materials and agricultural products will lead to increases in the already spiraling debt with the developed West. Poland will likely draw on Western government-guaranteed credits and Eurocurrency loans and seek greater assistance from OPEC countries. Foreign trade officials admit that the rapidly growing indebtedness to the developed West may make it difficult to secure foreign credits at favorable rates. At the same time, Warsaw will continue to push exports and seek coproduction arrangements to expand hard currency earnings and meet debt service payments.

48. Recent large orders for machinery and equipment suggest that the Poles are still on a buying binge in the West and apparently are having little difficulty obtaining additional credits. In fact, on a recent visit to the United States, Minister of the Machine Industry Wrzaszczyk discussed with US businessmen and Eximbank officials the purchase of more than \$1 billion worth of machinery and equipment for the 1976-80 plan period. Polish officials seem to be convinced that Poland can maintain its high credit rating in the West even in the face of spiraling indebtedness, mainly because of its coal, copper, sulfur, and zinc deposits.

Domestic Political Stability

49. Gierek's retention of political power will depend in large part on his ability to satisfy rising consumer expectations. Despite substantial increases in supplies of food and consumer goods, considerable unsatisfied demand remains for quality goods of all types, especially foodstuffs. The key link between foodstuffs and political stability was underlined by consumer reaction to the meat shortages earlier this year. Although the basic demand for some consumer durables has been satisfied, car ownership by the average citizen is still a far-distant goal. Housing, moreover, probably will continue to be a thorn in Gierek's side, reflecting his regime's low priority for housing construction.

50. The need to increase exports to both the West and the USSR will curb the growth of supplies of domestic consumer goods - a fact the Polish consumer

Confidential

Confidential

knows all too well. To curb consumption growth, Gierek will likely have to restrain the rise in wages and increase some retail prices. The Poles have already announced plans to reduce the growth of real wages in 1975, and Gierek has hinted that some prices probably will be increased by the end of 1975. But Gierek will have to tread carefully in making changes in his economic policy to avoid a slowdown in growth and increased consumer dissatisfaction.

Confidential